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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001487

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TAGS: ECON EINV CH TW
SUBJECT: TAIWAN TAKING OVER PRC ONE NOODLE BOWL AT A TIME

Classified By: AIT Deputy Director David J. Keegan, Reason 1.4 d

Summary

¶1. (C) Two Taiwan firms, Tingyi and Uni-President, dominate the instant noodle and ready-to-drink tea markets in the PRC with a combined market share of more than 50 percent. Both complain of Taiwan's cross-Strait economic restrictions that prevent them from pursuing a strategy that looks at the Taiwan and PRC markets as an integrated whole. Uni-President highlighted the 40 percent ceiling on PRC investment and lack of direct air links as major obstacles. The 40 percent ceiling encourages Taiwan firms to channel investment through third territories or list their stock overseas. End summary.

¶2. (U) In the past, Taiwan investment in the Mainland generally consisted of manufacturing facilities assembling imported inputs into consumer goods for export to the United States, Europe and Japan. Recently, more and more firms are building factories to produce goods for sale to domestic PRC consumers. Taiwan's packaged food industry was a pioneer of the strategy and has been remarkably successful.

¶3. (C) Today, two firms of Taiwan origin dominate the instant noodle and beverage markets in the PRC. Tingyi Holding Corporation's Master Kong brand instant noodles is the top brand in the PRC with a 40 percent market share. In the beverage industry, Master Kong claims 45 percent of the ready-to-drink tea market and 18 percent of the juice market. Taiwan's Uni-President Enterprises Corporation is one of Master Kong's strongest competitors in both industries. According to Uni-President Vice President of Administration Wu Chung-sung, Uni-President has a 14 percent share of the instant noodle market and approximately a 27 percent share of the PRC markets for both ready-to-drink tea and juice.

Different Paths Meeting Again in Taiwan

¶4. (U) Tingyi and Uni-President arrived in the PRC market by different paths. Uni-President started as a food manufacturer in Taiwan in 1967. Today, it also owns all of Taiwan's Seven-Eleven convenience stores, numbering more than 4,000. It first invested in the PRC in 1992 and has

invested US$ 1.7 billion there so far. Tingyi, on the other hand, was founded by four brothers from Taiwan in Tianjin in 1989. They were looking for opportunities in the Mainland because the family's vegetable oil business was struggling in Taiwan. Tingyi is listed on the Hong Kong stock market and Japanese firms Asahi Breweries, Itochu and Sanyo Foods are major investors. In 1998, Tingyi developed its first major presence in the Taiwan market when its parent Ting Hsin Holding Company purchased more than 50 percent of Wei Chuan Foods Corporation, a Taiwan food manufacturing and convenience store conglomerate. Since then, Uni-President and Master Kong brands have competed for Taiwan market share as well. Today Uni-President has more than 45 percent of the instant noodle market in Taiwan compared to over 20 percent for Tingyi's Wei Chuan.

Restricted Greater China Strategy

¶5. (C) Both firms are pursuing a Greater China strategy, seeking to build a strong presence in both the PRC and Taiwan before further expansion in Asia and then elsewhere. However, Taiwan's regulations restrict how closely they can integrate their operations on the two sides of the Taiwan Strait. According to W. M. Chen, Public Relations Manager for Wei Chuan, Tingyi and Wei Chuan cannot take full advantage of the PRC's lower production costs because Taiwan still prohibits the import of instant noodles from the Mainland. Nevertheless, Tingyi exports Master Kong noodles manufactured in the PRC to the United States, Japan, Europe, Australia and Southeast Asia. Uni-President's Wu noted that until 2003, the Taiwan government

prohibited investment in the PRC in the manufacture of dairy products. He complained that there had been no economic reason for the ban and it had prevented Uni-President from building on its dairy experience in Taiwan.

¶6. (C) Wu told AIT that the two most problematic restrictions for Uni-President are the 40 percent limit on PRC investment and the lack of direct air links. Taiwan firms are not permitted to invest more than 40 percent of their total paid-in capital in the PRC. Wu said that Uni-President's investment in the PRC is very close to the limit. Looking at the reported paid-in capital of Uni-President's affiliate enterprises in its 2004 annual report, it appears that the group's PRC affiliates account for approximately 25 percent of the group's total paid-in capital. However, the firm's British Virgin Islands and Cayman Islands affiliates, many of which are clearly PRC enterprises, account for another 19 percent. Wu complained that the lack of direct air links is a source of major inconvenience for Uni-President's more than 200 Taiwan employees in the PRC.

Comment - Making Taiwan Firms Less Competitive

¶7. (C) Taiwan's strong position in the PRC instant noodle and beverage markets is a remarkable success story and an example of how closer cross-Strait economic ties can affect the daily lives and preferences of consumers on both sides of the Strait. However, the experiences of Tingyi and Uni-President also show how Taiwan's cross-Strait restrictions, especially the 40 percent ceiling on investment, can put Taiwan firms at a disadvantage without benefiting the Taiwan economy. Tingyi, which was founded in the PRC and listed in Hong Kong, is not subject to the ceiling but is able to penetrate the Taiwan market through its Taiwan subsidiary. Uni-President is heavily invested in Taiwan in a mature industry with little room for local expansion but has to channel its PRC investments through third territories. Taiwan firms will continue to invest and expand operations in the PRC, but will increasingly be

forced to channel that investment through third territories or even to list in Hong Kong or elsewhere. End comment.
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